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AAVAS FINANCIERS LTD.

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Aavas Financiers Limited reported a landmark fiscal year 2026, characterized by key strategic milestones, including a transition in promoter ownership to CVC Capital Partners. The company achieved notable scale, with its balance sheet crossing INR 200 billion, net worth exceeding INR 50 billion, and lifetime disbursements surpassing the INR 400 billion milestone.

Headwinds Easing, Growth Recovery Ahead

Over the last three years, Aavas has dealt with multiple challenges, including leadership changes, promoter stake transition, and growth disruptions caused by e-Khata registration issues and the Karnataka ordinance uncertainty. In our view, most of these concerns have now moderated. The company's focus on strengthening the RRO model and increasing DSA-led sourcing should aid a gradual revival in disbursements while improving operating productivity. Aavas also continues to stand out on asset quality, with superior GS3 levels and contained credit costs. Supported by the appointment of a new CEO, strong backing from CVC Capital, expansion into Tamil Nadu, Uttar Pradesh and Gujarat, improving employee productivity, and a comfortable CRAR of 44.6%, we retain a positive stance on the stock and expect both disbursement momentum and AUM growth to strengthen gradually.

Dynamic Borrowing Mix Strengthens ALM Efficiency

Aavas demonstrated sophisticated liability-sourcing capabilities, engineering a 62 bps full-year improvement in its overall cost of funds. Aavas' liability composition features 40% allocations linked directly to external indicators (Repo, T-Bills, MIBOR) and 33% linked to short-term MCLR (up to 3 months). This 73% blended floating structure allows faster asset-liability pricing corrections relative to sector peers.

Prudent Underwriting Keeps Asset Quality Resilient

Asset quality metrics across both classic and emerging micro-markets continue to track close to multi-year historical floors. Total 1+ DPD decreased significantly by 63 bps sequentially to exit at 3.17%. Blended GNPA and Net NPA values printed at stellar marks of 1.05% and 0.68%, respectively. This defensive risk profile is preserved via rigorous underwriting parameters specialized in the assessed-income segment, where customized, individualized risk-adjusted pricing models are deployed.

The company maintains an aggregate ECL provision cushion of Rs. 1.3 billion as of March 31, 2026. Credit costs for the quarter tracked safely at an optimized rate of 13 bps, significantly undershooting management's long-term sustainable guidance ceiling of 25 bps. Ground observations for the beginning of Q1FY27 suggest improvements in macro-repayment trajectories, with bounce rates in April showing reductions compared to previous periods.

Operating Leverage Expected as New Investments Season

While cost-to-AUM experienced a slight temporary uptick during FY26 due to extensive upfront investments in headcount across newer branches and the implementation of long-term employee retention structures (ESOPs/PSOPs via CVC Capital Partners), management expects long-term operating leverage to start kicking in over a 2-to-3-year duration.

FY27 Inflection to Drive Valuation Re-rating

As the company works towards scaling its AUM growth back up into its 20%+ target band and targets a long-term ROE transition into the high teens, it offers an attractive combination of defensive underwriting and structural compound growth. Key monitoring risks include hyper-competition within specific regional zip codes and macroeconomic volatility affecting self-employed borrowers.

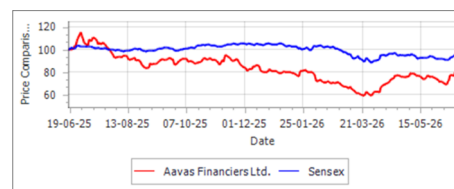
AHFC valuations are near historical lows due to muted growth and mild asset-quality stress. We see FY27 as a potential inflection year, led by improving disbursements and easing credit concerns. Aavas is well placed for a re-rating, supported by CVC backing, new leadership, and improving operating momentum.

We believe Aavas' current valuation of 1.7x FY28E BVPS offers attractive upside. We initiate coverage with a BUY rating and value the stock at 2.5x FY28E BVPS, supported by expected average RoA/RoE of 3.6%/15% over FY27E-28E, implying a target price of INR 2,200 per share.

CMP	1472
Target Price	2200
Upside%	49%
Recommendation	BUY

MARKET DATA	
Market Cap (INR mn)	114422
Outstanding Shares (mn)	79.24
Face Value (INR)	10
Dividend Yield (%)	0
TTM P/E	17.5
Industry P/E (X)	22.25
Beta	0.80
52 Week High/ low	2152/1050
BSE Code	541988
NSE Code	AAVAS
Reuters Ticket	AVAS.BO
Bloomberg Ticker	AAVAS IN

MARKET DATA	
Promoters %	48.9%
Institutions %	39%
Non-Institutions %	12.2%



Key Financial & Operating Metrics

INR Mn	Total Income	YoY%	PAT	YoY%	BVPS	ROA(%)	ROE(%)
FY25	13509	13.3%	5741	16.9%	551	3.3%	14.0%
FY26	15900	17.7%	6549	14.1%	639	3.3%	13.8%
FY27E	18570	16.8%	7840	19.7%	738	3.4%	14.4%
FY28E	22711	22.3%	9874	25.9%	863	3.7%	15.6%

Industry Landscape: Structural Tailwinds, Policy Support and Operating Realities

The affordable housing finance sector in India continues to present a robust long-term investment thesis, underpinned by strong regulatory support, structural government incentives, and deep-seated demand in Tier-2 and Tier-3 cities.

India’s affordable housing finance market has emerged as a structurally important segment within the financial system, driven by deep underlying demand. In 2026, the sector appears to be at an inflection point, supported by a maturing credit ecosystem, stronger policy support, and an increasingly aspirational and creditworthy borrower base.

The structural evolution of the Indian housing finance sector is defined by two simultaneous movements: a steady macro-expansion and an internal redistribution of market share. Nationally, individual housing loan penetration has deepened, with the outstanding-to-GDP ratio reaching **11.23% in FY25**, up from 8.0% a decade prior.

However, a closer look at portfolio compositions reveals a stark divergence between traditional banks and specialized financiers. Scheduled Commercial Banks are systematically shifting upstream. Their exposure to credit below the INR 2.5 Mn ticket size dropped precipitously from 41% in March 2021 to 27.96% in March 2025, while their luxury and premium loan books (>INR2.5 Mn to INR10 Mn) grew to dominate 54.17% of their portfolio.

Specialized Housing Finance Companies (HFCs) have actively moved into this vacuum, cementing the sub-INR2.5 Mn market as a highly defensible strongpoint. Today, these small-ticket loans make up 44% of HFC portfolios. More importantly, the Economically Weaker Section (EWS) and Low-Income Group (LIG) categories constitute 35% (INR2400 Bn) of the total HFC individual housing book. This momentum is sustained by robust originations; out of INR908 Bn disbursed by HFCs in H1 FY26, a clean quarter (INR228 Bn) was allocated to EWS/LIG borrowers.

The sector faces two core structural operational risks: severe regional imbalances and an inventory supply deficit. Credit distribution remains heavily skewed toward industrialized corridors, with Southern and Western states monopolizing **34.29% and 30.61%** of H1 FY26 disbursements, respectively, leaving the Eastern and North-Eastern frontiers under-penetrated at a combined share of just 6.17%.

Key interventions to support affordable housing

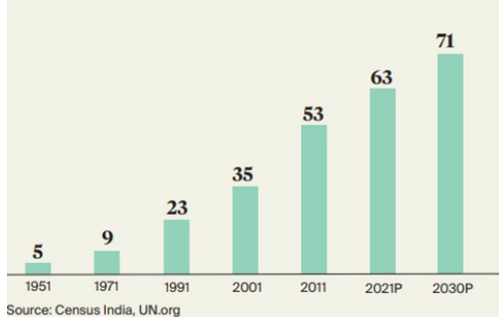
Incentive Type	Details
Tax Benefits	Section 80-IBA: Tax deductions for profits from affordable housing projects approved until March 31, 2022.
	Section 24: Deductions on interest paid on home loans, incentivizing first-time homebuyers.
GST Concessions	GST rate reduced to 1% for 8% earlier from under-construction affordable homes.
Priority Sector Lending (PSL)	Affordable housing projects are included in the Harmonized Master List, making them eligible for priority sector lending rates.
Provision of infrastructure status	Enables benefits such as lower borrowing costs, tax concessions, increased flow of foreign and private capital
Subsidies and Financial Assistance	Affordable Housing Fund (AHF): Established within the National Housing Bank, cost of re-financing is capped at 350 bps over 10-year G sec yield
Public-Private Partnerships (PPP)	Financial subsidies, government land, and cross-subsidies are used to make housing more affordable.
Green Building Incentives	Encouragement for sustainable building practices through incentives for green buildings.

Source: Govt, RBL, Knight Frank Research

Accelerated Urbanization and the Imminent Urban Housing Deficit

As cities continue to expand and grow, the demand for affordable housing will only widen in the coming years. By 2030, about 71 cities are estimated to have a population of 1 mn and above, of which 8 cities will be mega cities with a population above 10 mn. This underscores the speedy urbanisation in India which will necessitate the infusion of adequate infrastructure, primarily of housing. A lack of adequate housing may lead to the formation of informal housing in the cities.

Cities in India with 1 mn plus population



Affordable Housing Finance: A Large and Structurally Significant Market

India's affordable housing finance sector has quietly grown into a massive structural powerhouse. Defined by loans capped at INR3.5 million, the market reached a massive **INR19.48 trillion** in outstanding credit by the first half of fiscal 2026, weathering both pandemic disruptions and monetary tightening to post an 8.34% CAGR since 2021.

The real story, however, lies in its sheer volume penetration. This segment accounts for nearly half (**46.29%**) of the country's total mortgage value and an overwhelming **81.96% of all active loan accounts**. This data underscores a critical reality: affordable housing is not a subsidized sideline, but the literal foundation of India's formal credit system.

India's affordable housing loan market stands at ~INR13 tn, with HFCs and SCBs accounting for INR6.9 tn and INR6.2 tn, respectively. The long-term financing opportunity remains sizeable, supported by strong end-demand and high loan dependency, with 77% of households earning below INR1 mn annually relying on home loans. We estimate the affordable housing shortage could reach 31.2 mn units by 2030, translating into a market size of ~INR67 tn and a lending opportunity of ~INR45 tn over 3x the current loan book.

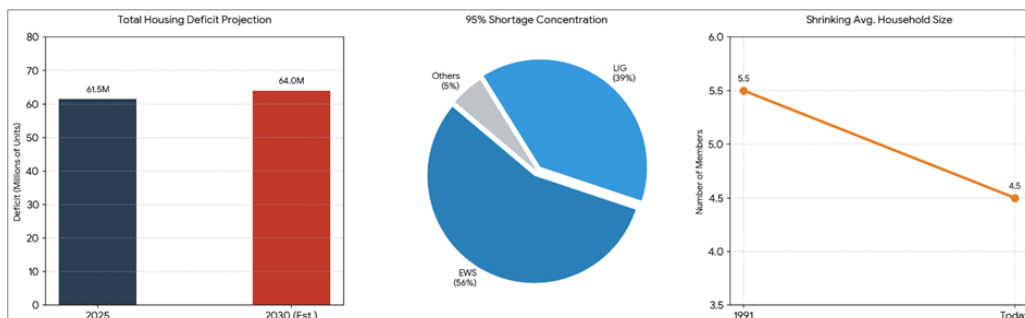
Assessment on financing opportunity for banks and HFCs for affordable housing consumer loans

	Total housing shortage	Housing shortage (Ex HIG)	Area	Cost of dwelling	Average cost	Market size	Potential home loan market	Financing Opportunity
	Units in mn	Units in mn	Sq ft	Rs mn	Rs mn	Rs tn	Rs tn *	Rs tn **
EWS	15.0	15.0	150-300	<1.5	1.2	174	13.4	11.8
LIG	10.9	10.9	300-600	1.5-3.0	2.3	25.2	19.4	17.2
MIG	5.3	5.3	600-1200	3.0-5.5	4.6	24.6	18.9	14.9
HIG	1.1							
Total	32.3	31.2				671	51.6	44.6

Demographic Shifts and Changing Household Dynamics Multiplies Demand

The sheer volume of affordable housing loans in India is no statistical fluke. Instead, it is the direct result of how the nation's income and geography are structured.

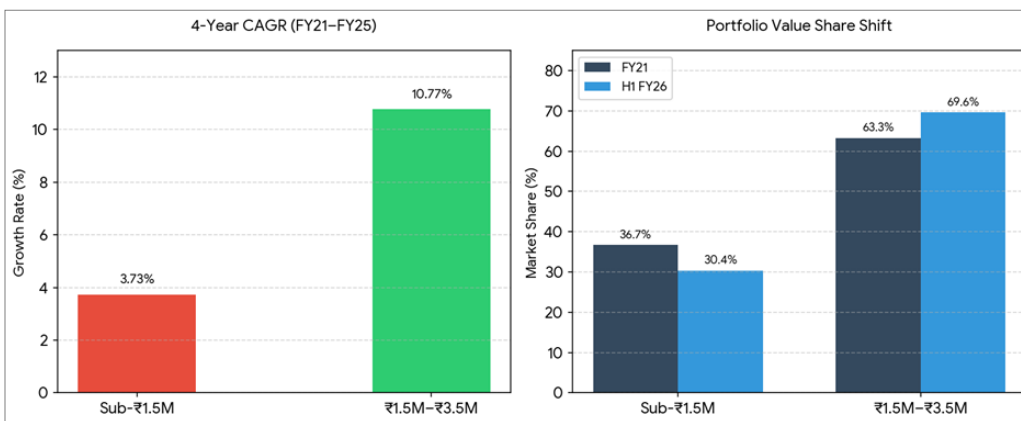
India faced a staggering housing deficit of 61.5 million units in 2025, this is expected to creep up to 64 million by 2030. Ministry of Housing data highlights that 95% of the housing shortage is concentrated in the Economically Weaker Section (56%) and Low-Income Group (39%) categories, underscoring the deeply skewed nature of the deficit toward lower-income households.



The core demand for affordable housing finance comes from India’s informal economy; kirana shop owners, small traders, and self-employed individuals—whose incomes are steady but often undocumented, limiting access to traditional bank credit. As a result, growth in the segment is concentrated in Tier 2, Tier 3, and semi-urban markets, where housing remains affordable and specialized HFCs are able to serve borrowers through alternative underwriting models. This demand is being further reinforced by changing household dynamics, with the rise of nuclear families and declining household size driving greater need for independent home ownership.

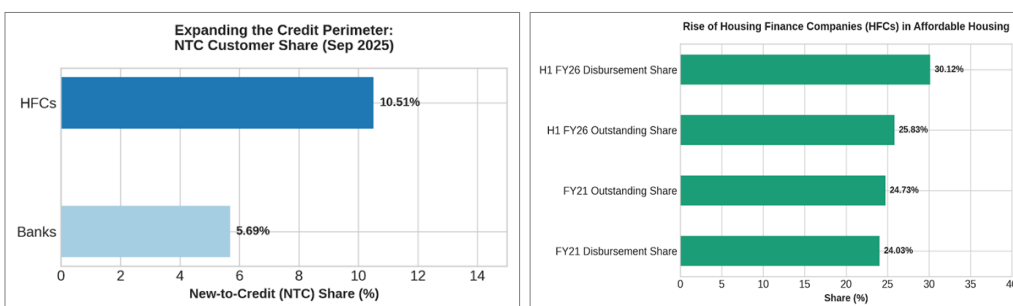
The Rise of Mid-Ticket Affordable Housing

India’s affordable housing finance market is witnessing a structural shift toward the INR1.5–3.5 million ticket-size segment, which is emerging as the key growth driver. While loans below INR1.5 million have seen muted growth, constrained by rising construction costs, property price inflation, and tighter underwriting norms, the mid-ticket affordable segment has expanded at a much faster pace and now accounts for nearly 70% of market value. We believe this reflects a broader evolution in the borrower profile, supported by income progression, demand migration toward Tier 2 and peripheral markets, and higher replacement costs. As a result, the INR1.5–3.5 million segment is likely to remain the most attractive growth cohort within affordable housing finance over the medium term.



The Shifting Lending Landscape

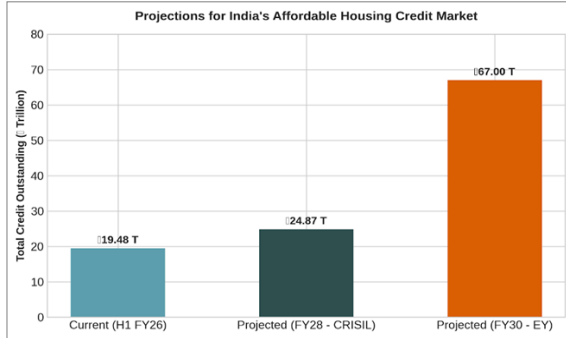
gradual shift in lender mix, with public sector banks losing share and HFCs steadily strengthening their position. As of H1 FY26, public sector banks accounted for 38.55% of outstanding loans, down from 42.36% in FY21, while HFCs increased their share to 25.83% from 24.73%; private banks remained broadly stable at ~27%, and NBFCs/others continued to gain traction. The trend is even more visible in disbursements, where HFCs’ share rose to 30.12% in H1 FY26 from 24.03% in FY21. We believe this reflects HFCs’ stronger ability to underwrite informal-income borrowers using surrogate assessment frameworks, giving them a structural advantage in underserved geographies. This is also evident in their higher new-to-credit customer share of 10.51% as of September 2025, versus 5.69% for banks, highlighting their growing role in expanding formal credit access.



The Road to FY28 and Beyond

Through FY28, the affordable housing finance market remains on a strong growth trajectory, supported by both demand-side tailwinds and supply-side enablers. It is expected that total affordable housing credit outstanding to reach ~INR24.9 tn by FY28, implying an 8–10% CAGR, with the INR1.5–3.5 mn ticket-size segment likely to grow faster at 10–12%. Longer-term projections remain equally constructive, with EY estimating the sector’s loan book could scale to INR67 tn by FY30 as credit access deepens across the next 100–200 cities beyond the current top urban centres.

We believe this growth outlook is underpinned by structural rather than cyclical drivers, including PMAY 2.0, lower policy rates, infrastructure-led housing demand, and the rapid expansion of digital underwriting. At the same time, improving digital infrastructure is enabling lenders to serve informal-income borrowers more efficiently, supporting deeper market penetration. Taken together, these factors suggest that the INR19.48 tn affordable housing finance market as of H1 FY26 marks the beginning of a longer runway for growth rather than a peak.



AHFCs Near an Inflection Point; Aavas Best Placed for a Re-rating

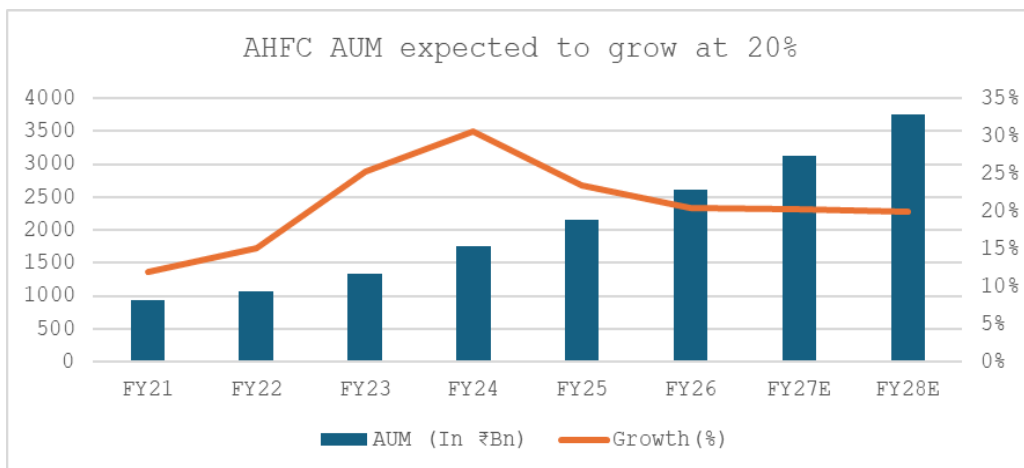
Over the past decade, AHFCs have delivered strong secular growth, supported by improving affordability, rapid urbanization, favourable policy support such as PMAY, and rising housing demand. Over this period, players have built differentiated business models across borrower mix, product mix, and sourcing strategy, while leveraging technology-led underwriting to create a strong moat in the informal lending segment. More recently, the

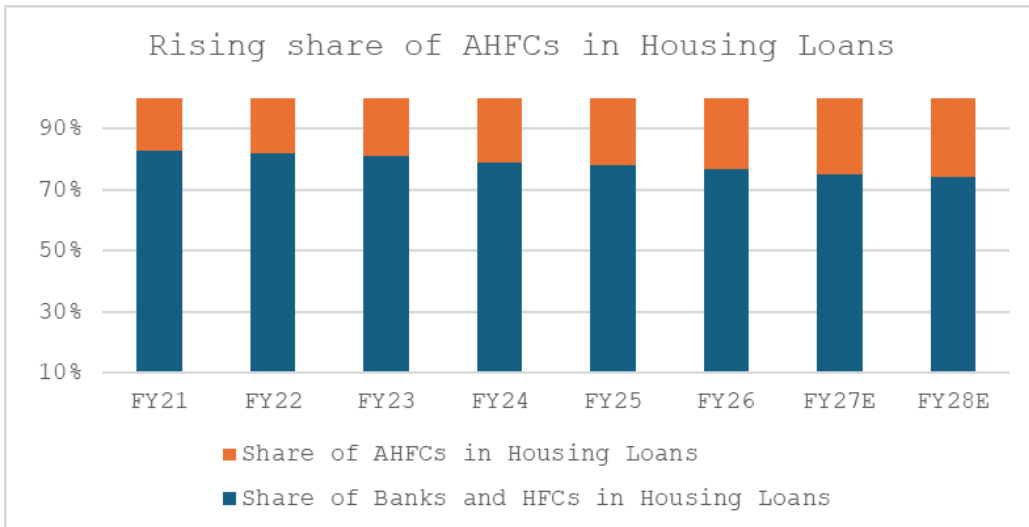
sector has faced temporary headwinds from rising competition, stress in small-ticket MSME loans, and operational bottlenecks such as e-Khata delays in key states, resulting in a sharp valuation correction. While growth has moderated to a lower base-adjusted trajectory, we believe the sector's core return profile remains intact. Aavas remains our top pick in the sector, as we believe the market's perception of it as a low-growth franchise could shift under the new CEO's leadership. Management's medium-term AUM growth target of 20%+ is expected to be supported by higher sanction ratios, improved employee productivity, expansion into newer geographies, and a rising home loan ticket size.

AHFCs growth expected to outpace overall mortgage growth

Growth in assets under management (AUM) of affordable-housing finance companies (AHFCs) is expected to stay steady at 20-21% this fiscal and next, outpacing the 18-19% growth expected for the overall mortgage finance industry. This is expected to increase AHFCs' share in the housing loan market relative to the broader mortgage industry in India.

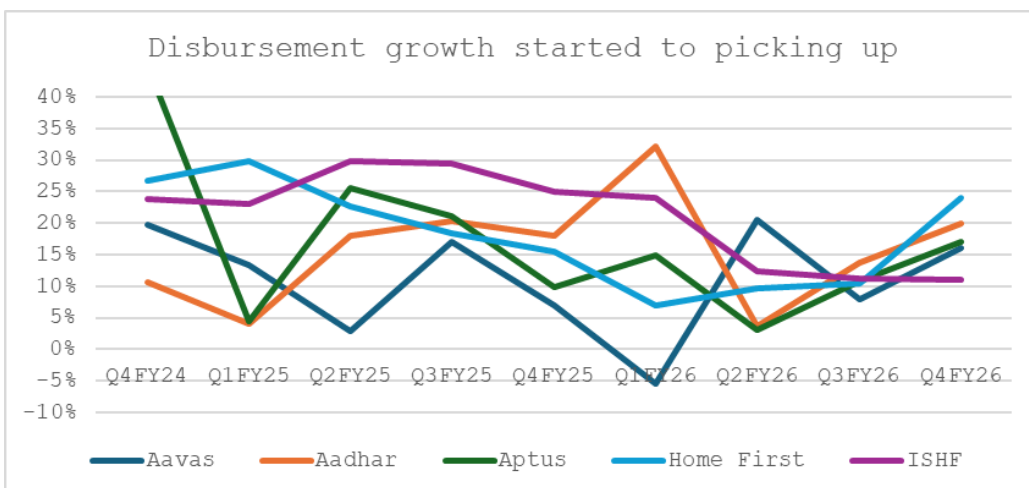
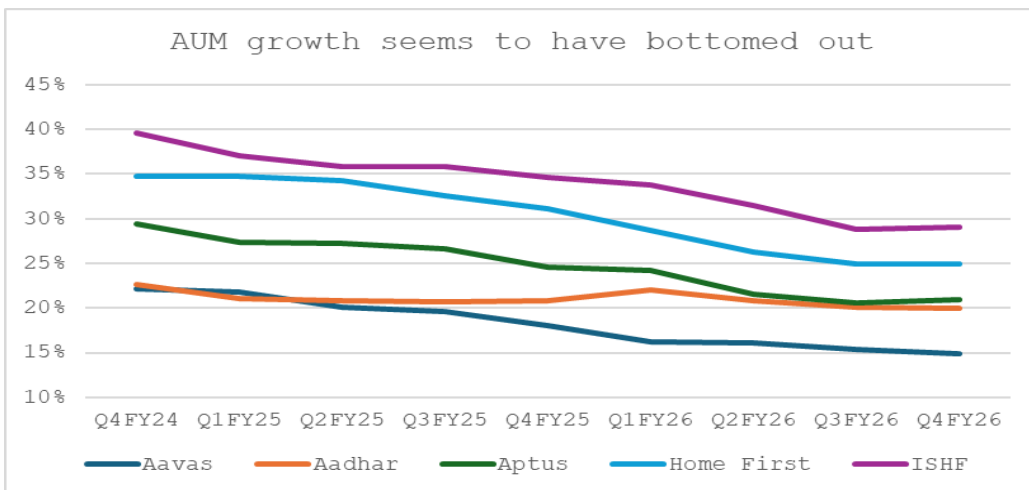
We remain constructive on the sector's long-term outlook, supported by structurally low mortgage penetration in India and the need for a differentiated, opex-heavy operating model to serve the mass-market borrower segment—an area where banks have limited appetite due to higher underwriting intensity and lower operating leverage. AHFCs, with their deep distribution reach, localized underwriting, and collection capabilities, remain better positioned to cater to this segment. As a result, we believe the sector is well placed to sustain healthy earnings growth of ~20% over the medium term, driven by a combination of steady AUM expansion, stable margins, and benign credit costs.





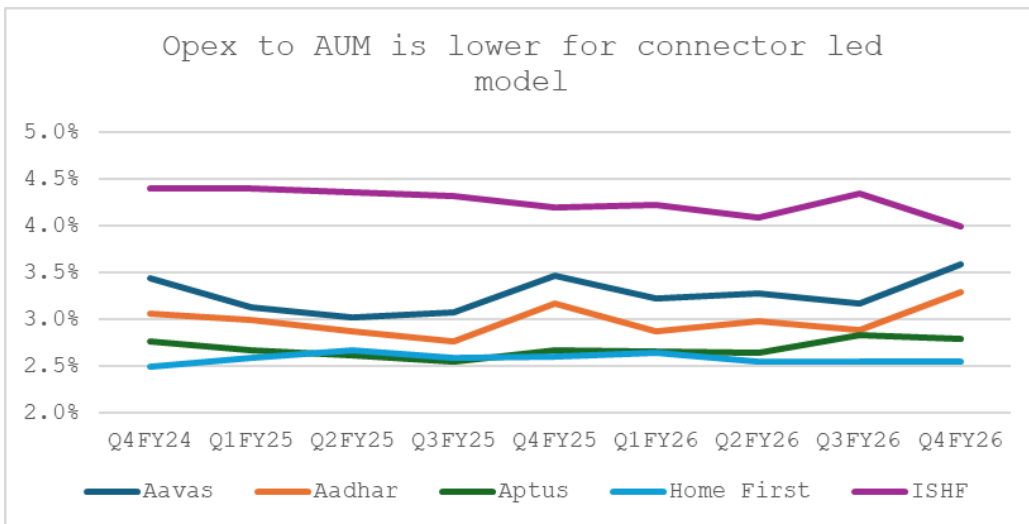
Defensive Business Model Supports Resilience in a Challenging Macro

AHFCs are relatively well insulated against a challenging macro environment, in our view, given the secured nature of their loan books, with portfolios largely backed by housing loans and LAP. This provides greater resilience versus several other NBFC segments, particularly in periods of elevated stress. In addition, the sector remains better placed on the margin front. A high share of floating-rate assets enables faster transmission of any increase in funding costs, while a liability profile skewed toward longer-tenor borrowings limits dependence on short-term instruments such as CDs. Further, access to NHB refinancing provides an additional funding advantage, reducing the risk of sharp margin compression even under tighter liquidity conditions.



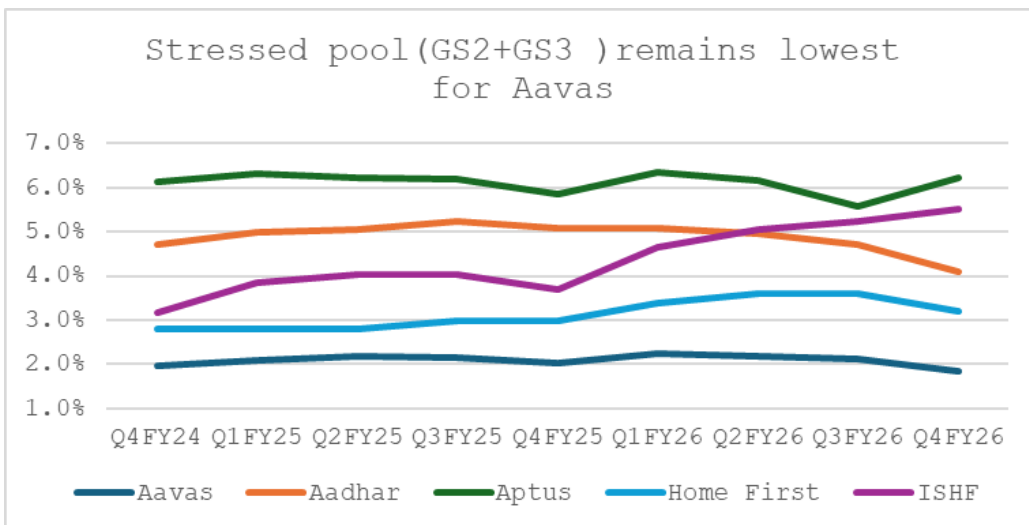
Tech-Led Sourcing Models Deliver Better Branch Productivity

Given the semi-formal and underbanked nature of the target customer segment, lower ticket sizes, and the need for intensive on-ground assessment, the AHFC model remains inherently operationally intensive. Underwriting requires deeper income validation, referral checks, and co-borrower assessment, making sourcing quality and channel strategy critical. HFFC has consistently delivered the strongest operating efficiency in the sector, supported by its connector-led sourcing model. While Aavas has also invested meaningfully in technology, the benefits on productivity have been relatively modest so far, with opex/AAUM at 3.2%, partly due to its in-house sourcing model, higher employee additions, and branch expansion. Aptus continues to maintain competitive operating metrics despite an in-house model, reflecting disciplined branch expansion, while ISFC remains relatively opex-heavy, though this should improve with branch seasoning. Overall, intermediary-led sourcing models, as seen at Aadhar and HFFC, currently appear to deliver superior operating leverage versus traditional in-house sourcing structures. Aavas too is currently transitioning its Direct distribution model to Resident Relationship Officer model to improve its productivity, higher sanction ratio will also result in higher operating efficiency going ahead.



Asset Quality Concerns Appear Largely Behind

AHFCs have faced elevated asset quality stress over the past 6 quarters, largely due to spillover from leverage-related stress in the MFI sector into the small-ticket LAP/MSME segment. The impact was more pronounced for players such as Aptus and ISFC, given their deeper geographic exposure and higher LAP mix. However, the broader industry now appears to be moving toward normalisation. Despite the stress, the AHFC model has remained resilient, with incremental credit costs contained at 20–40 bps. With collection efficiency improving and GS2 trends stabilising in 3QFY26, we believe the bulk of the MSME/LAP stress is largely behind, which should support a gradual moderation in credit costs going forward.



Key Risks and Monitoring Factors

Affordable Housing Finance Companies face key risks including geographic concentration, which exposes them to region-specific economic or political disruptions; macro-economic volatility, such as inflation or interest-rate swings that can strain borrower repayment capacity; rising competitive intensity, which can drive yield compression and pressure margins; and asset-quality deterioration, as customers often have limited financial buffers, making the segment more vulnerable to income shocks and resulting delinquencies.

Aavas Financiers Limited

Strong management execution, strategic expansion, and high-touch approach drove a 40% AUM CAGR during FY17-20. Even pandemic periods saw 20%+ AUM growth led by productivity gains. While strong DNA encompassing robust inhouse sourcing and BT prediction models remain, scalability and competitive challenges to temper growth necessitating strategic shifts to business model. AAVAS has been focusing on 1) new territorial expansion with front-loading of branch investment 2) growing proportion of non-home loans (700bp expansion from FY19 to current 33%; target mix of 35%) and 3) increasing ticket sizes (disbursement ticket size up from INR 0.99mn in FY19 to INR 1.33mn in FY26). Our FY27E–FY30E outlook underlines strong business scalability, characterized by a 20% acceleration in loan disbursements and a corresponding 18% CAGR in AUM growth.

Aavas exhibits strong underwriting and risk management practices, allowing it to maintain resilient asset quality and decouple itself from industry headwinds—even with a higher share of self-employed borrowers and non-home loans than its peers. Unlike other affordable housing finance companies (HFCs) that saw a rise in stressed loans, Aavas improved its asset quality, with its 1+ DPD (Days Past Due) portfolio declining significantly from 4.15% in Q1FY26 to 3.17% in Q4FY26.

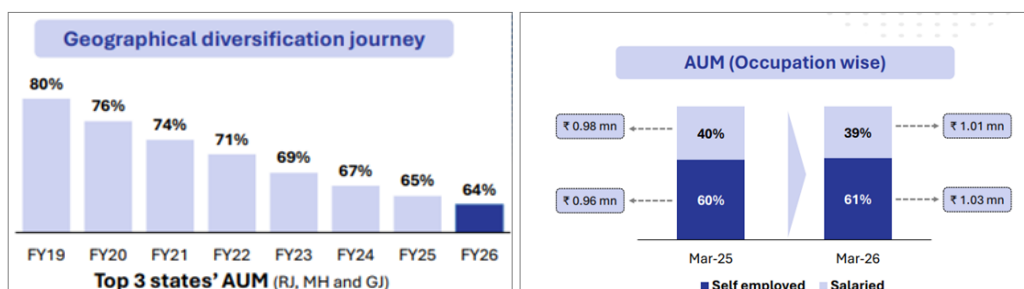
Leadership Transition and Forward Strategic Calibration

Mr. Manu Singh addressed stakeholders for the first time as Chief Executive Officer, regulatory approvals pending for MD. Singh brings over 25 years of lending experience, focusing heavily on execution discipline, risk framework optimization, and productivity enhancement. Manu Yeshpal Singh brings over two decades of experience across retail lending, housing finance, and consumer banking, having held leadership roles at Kotak Mahindra Bank, Tata Capital and ICICI Bank. He most recently served as President and Business Head for Housing Finance at Kotak Mahindra Bank, where he oversaw a business franchise of around INR 700 Bn. The company said he was elevated twice in five years, most recently in 2024.

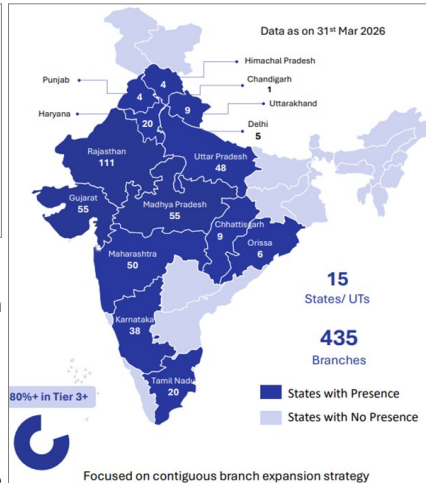
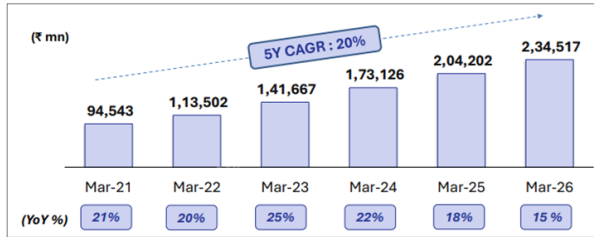
Management has set an ambitious, long-term asset under management (AUM) growth target of **20%+** to consistently outpace the industry. Achieving this will rely on hyper-local distribution capabilities, optimizing sourcing funnels, and scaling newer geographic territories like Tamil Nadu, Uttar Pradesh, and Gujarat. Capital to Risk-Weighted Assets Ratio (CRAR) sits comfortably at **44.6%**, providing ample headroom for long-term balance sheet expansion.

The affordable housing finance (AHF) market in Tamil Nadu, Gujarat, and Uttar Pradesh collectively represents the primary powerhouse of India's low-and-middle-income credit system, commanding over a quarter of the country's total demand. Across India's overall INR19.48 trillion AHF market, portfolio concentrations reveal that Gujarat holds the highest share among the three at ~11%, followed closely by Tamil Nadu at ~9%, and Uttar Pradesh at ~7%. This translates to localized outstanding loan books of approximately INR2.1 trillion for Gujarat, INR1.75 trillion for Tamil Nadu, and INR1.36 trillion for Uttar Pradesh.

Over the next 5 years, this cross-regional market is positioned for immense expansion. Driven by the mid-ticket INR1.5–3.5 million loan sweet spot, the entry of technology-led lenders into Tier-2/Tier-3 cities, and state-level policy linkages tied to the central government's PMAY-U 2.0 framework. More granularly, specialized Affordable Housing Finance Companies (AHFCs) operating within these states are expected to sustain an even faster AUM CAGR of 18% to 22%.



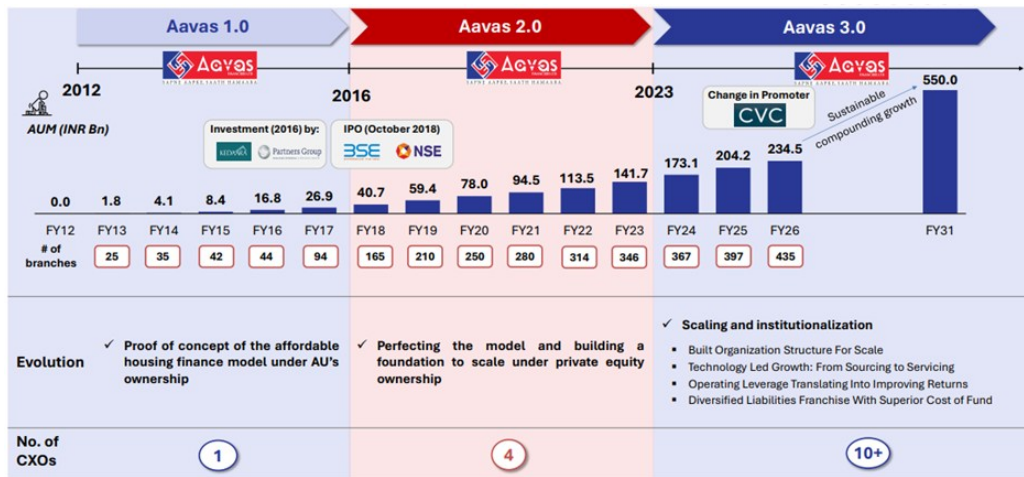
A proven track record of compounding AUM year-over-year



Sustainable Compounding

The transition to Aavas 3.0 underscores a shift away from high-touch, manual underwriting toward a highly systematic, tech-driven platform. This significantly de-risks the portfolio while accelerating turnaround times.

Growth Velocity: Meeting the INR550 billion target by FY31 implies an estimated AUM Compound Annual Growth Rate (CAGR) of approximately 18.6% from the current FY26 base. Given the comfortable Capital Adequacy Ratio (44.56%), the company is fully capitalized to achieve this target organically without near-term equity dilution.

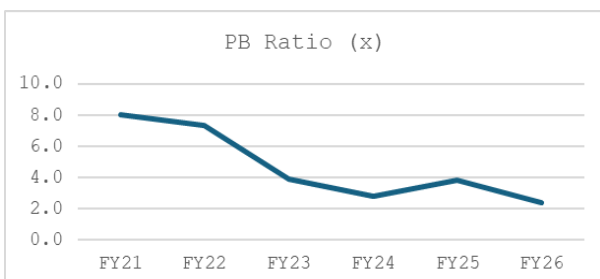


Growth Mandate and Yield Optimization

Manu Singh, the newly appointed Managing Director, faces the dual mandate of accelerating growth while enhancing risk-adjusted yields to strengthen profitability. Importantly, Aavas has consistently delivered best-in-class asset quality under the leadership of previous CEOs, and preserving this track record remains a core strategic priority for the new management as well. Management has highlighted that it is optimizing the risk-based pricing models, which will likely lead to higher yields over the medium term.

Comfortable valuation

Valuations across the AHFC universe are currently trading near the lower end of their historical band, reflecting muted disbursement growth and a marginal uptick in the 1+ DPD pool, which together have driven sector-wide de-rating. We believe FY27 could mark an inflection point for the sector, supported by a recovery in disbursement growth and easing asset quality concerns. In this context, Aavas Financiers appears well positioned to benefit from a rerating, given the strong leadership credentials of the new CEO and the strategic backing of CVC Capital. We expect the market's perception of Aavas as a structurally low-growth franchise to gradually change as the company begins to demonstrate stronger operating momentum in the coming quarters.

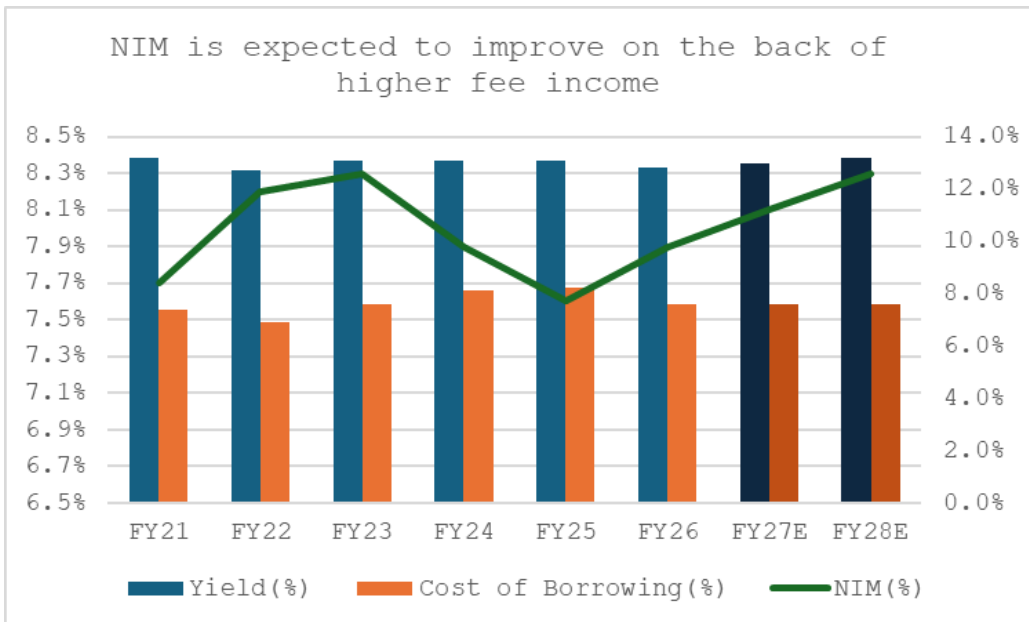
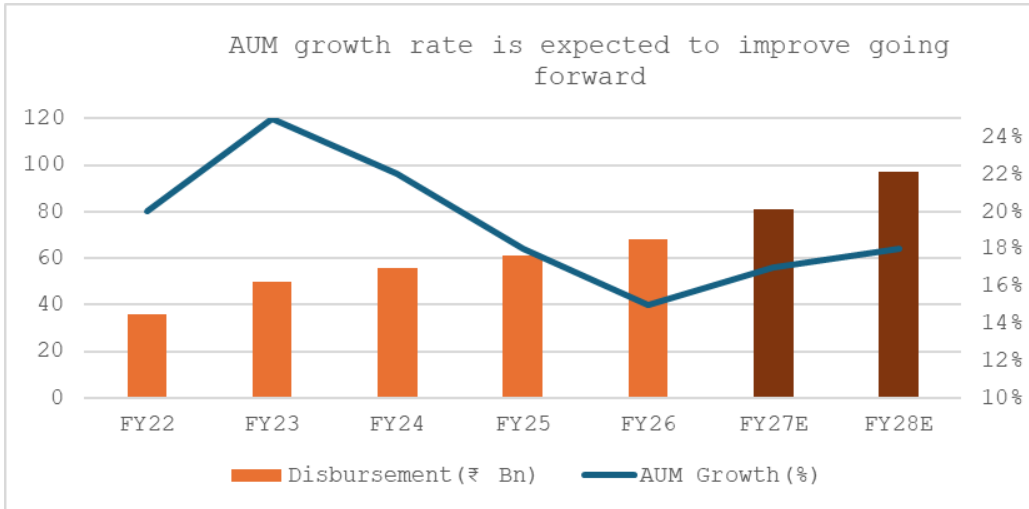


Productivity Gains and Rising Ticket Sizes Anchor the Post-FY26 Growth Recovery

Management reiterated its 20% AUM growth guidance, underpinned by: (1) continued investment in the direct sourcing channel, (2) accelerated expansion in high-potential geographies such as Maharashtra, Gujarat, and the southern states, and (3) tighter funnel management aimed at reducing leakages across sourcing,

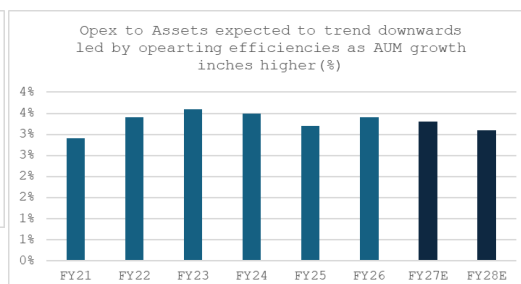
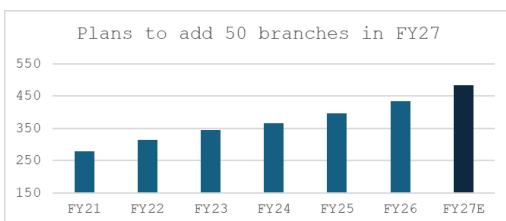
logins, sanctions, and disbursements. Increase in aspirational level has led to higher ticket size as well. ATS for the company is on increasing trend. Incremental ATS for Home Loan of the company now stands

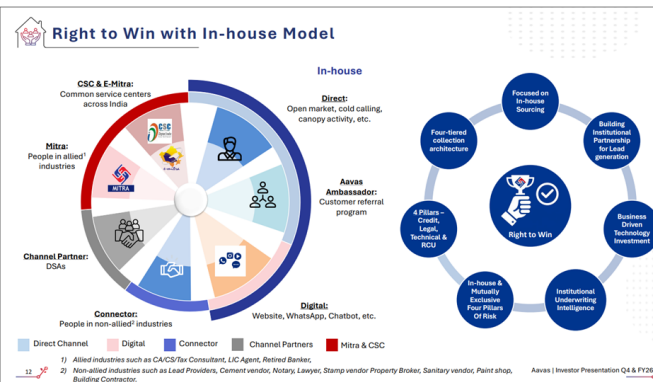
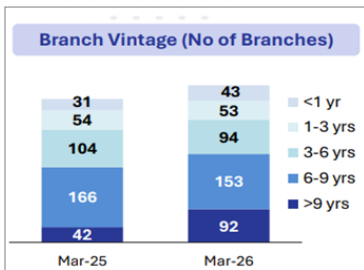
at close to INR 1.3 Mn as compared to ~INR 1 Mn on the closing AUM. FY 26 saw subdued AUM growth due to higher prepayment rates. Expect 17% AUM growth in FY27 and this will gradually improve to ~20% in coming years led by better sanction ratio and increase in employee productivity.



Opex Outlook: Branch Expansion, Sourcing Moats, and Capitalized Tech Upgrades

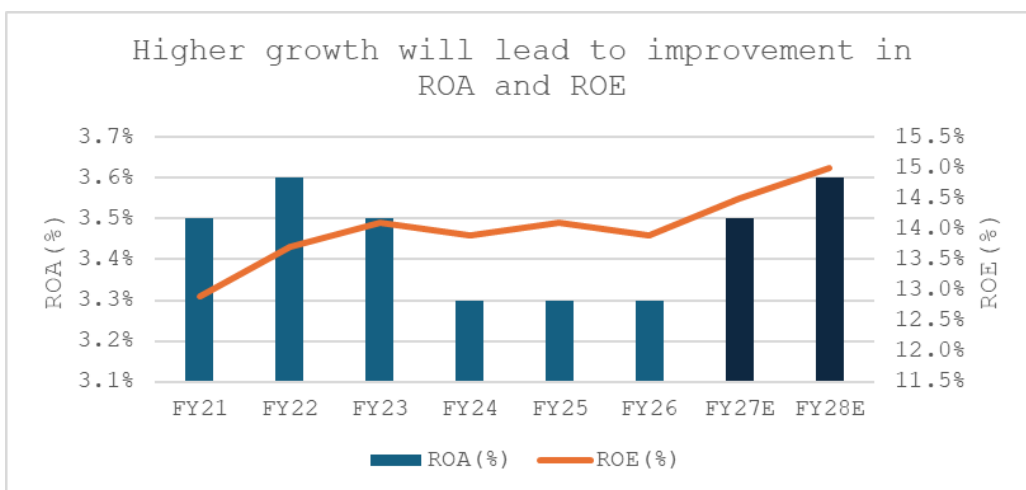
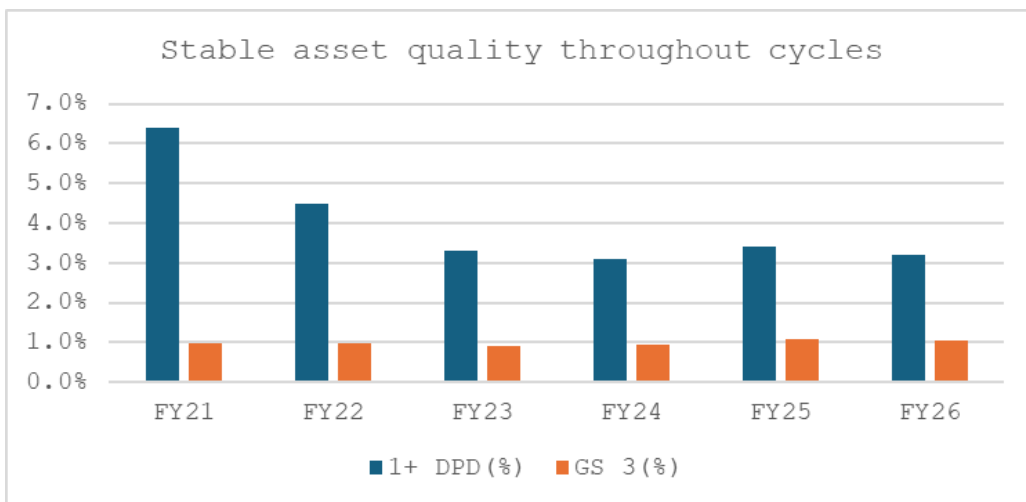
Opex metrics expanded moderately in FY26 due to extensive branch expansion (adding 31 branches to reach a total network of 435) and the introduction of new long-term employee retention schemes (ESOPs/PSOPs) (~INR 20cr) via the incoming promoter. Company plans to add 50 branches in FY27. It typically takes 12-15 months for a branch to breakeven. Management expects opex-to-AUM to scale down below 3.0% over the next 2-3 years, eventually targeting 2.75% as the balance sheet doubles. The company plans to sustain its growth momentum by doubling down on direct sourcing through channels like CSC, alongside a simultaneous expansion of its digital ecosystem via its core website and referral-backed mobile app. Having fully completed and capitalized major structural upgrades across Salesforce, Oracle FLEXCUBE, and Oracle Fusion ERP, the technology focus now transitions toward tactical AI and generative AI implementations aimed at enhancing underwriting precision and driving collection efficiencies.





Prudent Underwriting, Keeping Credit Costs Structurally Guarded

Aavas Financiers continues to showcase structurally superior risk management, demonstrating a strong ability to decouple its asset quality performance from broader industry headwinds. We bake in stable overall ECL coverage of 0.55% and muted write-offs of 7 bps, leading to moderate 13- 15 bps credit costs over FY2027-29E. Despite having a higher share of non-home loans and self-employed borrowers than most peers, Aavas had lower stressed loans on book. This reflects better risk management and underwriting practices at the company. Management has guided for credit costs of <25 bps over the medium term. While other affordable HFCs witnessed a rise in their 1+ DPD portfolio, Aavas continued to improve its asset quality, with the ratio declining to 3.17% in Q4FY26 from 4.15% in Q1FY26.



Valuation & Outlook

Aavas Financiers enters FY27 with a strong capital cushion, an upgraded credit outlook, an expanding distribution network, and a flexible liability structure. Provided the company can successfully execute its direct-sourcing expansion and improve branch-level per-capita productivity, it remains fundamentally well-positioned to maintain its industry-leading asset quality while pushing toward its 20%+ compounding target. Higher Fee and commission income and benefit of operating leverage will improve the ROA from 3.3% to 3.7% by FY28 and ROE to 15.6% by FY28. Have a BUY rating on the stock for the target price of INR 2200, valuing the stock at 2.5x FY28e P/B.



Income Statement

	FY25	FY26	FY27E	FY28E
Net Interest income	10102	11849	13620	16733
Fee income	1075	1130	1490	1797
Other operating revenue	2293	2907	3410	4131
Other income	39	14	50	50
Total income	13509	15900	18570	22711
Operating expenses	5912	7133	8050	9563
Pre provisioning operating profits	7597	8767	10520	13148
Provisions	271	337	400	400
Extraordinary items	-	25	-	
Profit before tax	7326	8405	10120	12748
Tax expense	1585	1856	2280	2874
Profit after tax	5741	6549	7840	9874

ROA Decomposition(%)

	FY25	FY26	FY27	FY28E
NII/Assets	5.7%	5.9%	6.0%	6.3%
Total income/Assets	7.7%	8.0%	8.1%	8.6%
Opex/Assets	3.4%	3.6%	3.5%	3.6%
PPOP/Assets	4.3%	4.4%	4.6%	5.0%
Provisions	0.2%	0.2%	0.2%	0.2%
PBT/Assets	4.2%	4.2%	4.4%	4.8%
Tax/Assets	0.9%	0.9%	1.0%	1.1%
ROA/Assets	3.3%	3.3%	3.4%	3.7%
Leverage(x)	4.27	4.20	4.20	4.19
ROE	14.0%	13.8%	14.4%	15.6%

Balance Sheet

	FY25	FY26	FY27	FY28E
Loans	162297	183727	214961	253653
Investments	2300	2708	3000	3300
Fixed Assets	824	1079	1100	1200
Other Assets	20763	24611	26000	28000
Total Assets	186184	212125	245061	286153
Networth	43609	50508	58348	68222
Borrowings	139185	158084	183377	214552
Other Liabilities	3390	3533	3336	3379
Total Liabilities	186184	212125	245061	286153

Key Ratios

	FY25	FY26	FY27	FY28E
CRAR	44.6	42.5	40.6	38.5
GS3	1.1	1.2	1.2	1.2
NS3	0.7	0.8	0.8	0.8
Per Share Data(INR)				
EPS	72	83	99	125
BVPS	551	639	738	863
Valuation(x)				
P/B	3.8	2.3	1.9	1.7

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